IDAHO POWER
An IDACORP Company

IDAHO POWER COMPANY
P.O. BOX 70
BOISE, IDAHO 83707

BARTON L. KLINE
Senior Attorney

December 23, 2004

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-04-18
Idaho Power's 2004 Integrated Resource Plan

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of the Response of Idaho Power Company To Filed Comments in the above-described case. Idaho Power acknowledges that Attachment A is not included with this filing. It will be filed separately next week.

I would appreciate it if you would return a stamped copy of this transmittal letter to me in the self-addressed, stamped envelope enclosed.

Very truly yours,

Barton L. Kline

Barton L. Kline by jb

BLK:jb
Enclosures

Telephone (208) 388-2682, Fax (208) 388-6936, E-mail BKline@idahopower.com

BARTON L. KLINE ISB #1526
MONICA B. MOEN ISB #5734
Idaho Power Company
P. O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-2682
FAX Telephone: (208) 388-6936

Attorney for Idaho Power Company

Street Address for Express Mail:

1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE FILING BY IDAHO POWER COMPANY OF ITS 2004 ELECTRIC INTEGRATED RESOURCE PLAN (IRP)	)))))	CASE NO. IPC-E-04-18 RESPONSE OF IDAHO POWER COMPANY TO FILED COMMENTS

In accordance with Order No. 29614 issued by the Commission on October 12, 2004, Idaho Power Company ("Idaho Power" or the "Company") hereby replies to the comments filed in response to the Commission's October 12, 2004 Notice of Filing. Themes common to several sets of comments will be addressed collectively. Certain specific comments of the Commission Staff and others will be addressed separately and the Company will provide a brief summary.

RESPONSE TO COMMON THEMES IN SEVERAL COMMENTS

Idaho Power has reviewed the comments of the Commission Staff ("Staff"), the combined comments of the NW Energy Coalition, Natural Resources

Defense Council, Renewable Northwest Project, and Advocates for the West (collectively the "Clean Energy Advocates"), the comments of Sempra Energy Resources, and the comments in support of Capital Enterprises--Warren Chapman's Lemhi Wind Project. Some common themes are apparent in nearly all of the comments:

First, there is general agreement that Idaho Power's 2004 Integrated Resource Plan ("IRP") is an improvement over previous IRP documents. Staff and the Clean Energy Advocates commend the Company for the improved process. Sempra Energy Resources states that the IRP presents a "fair and detailed analysis."

Second, the comments all suggest there is the potential for further improvement in the analytical process. Staff identifies a number of areas where analyses could be expanded. The Clean Energy Advocates identify some specific concerns relating to the IRP conclusions, and generally advocate for increased emphasis on energy-efficiency resources and urge extra caution when evaluating coal technologies. Sempra Energy Resources points out that a diversified, integrated plan including significant renewable energy resources needs to be complemented by reliable base load generation. Sempra indicates that coal-fired generation may be the most economical and reliable complimentary solution.

Idaho Power generally agrees with all of these common themes. Unquestionably the 2004 IRP process reflects further movement toward more traditional regulatory oversight and *was* an improvement over previous IRPs. The Company expects continued improvement in the 2006 IRP and beyond. It is understandable that individual points of view will be emphasized within the comments of the parties.

However, it is important to remember that the IRP process is intended to balance the views and concerns of all parties. The Company believes that this goal was achieved in its 2004 IRP.

IPUC STAFF COMMENTS

Idaho Power sincerely appreciates Staff's recognition of Idaho Power's efforts to implement improvements in its integrated resource planning process, and the resulting 2004 IRP. As Staff has correctly noted, Idaho Power does take the IRP seriously. Idaho Power's IRP is a real planning document and becomes an important reference for the Company in its resource decisions. Accordingly, Idaho Power views the IRP much more broadly than an activity that simply fulfills a regulatory requirement. Idaho Power has purposely taken steps to address the important issues identified in the Commission's Order No. 29189 acknowledging Idaho Power's 2002 IRP.

Idaho Power appreciates Staff's many insightful comments regarding the 2004 IRP. Idaho Power agrees with many of Staff's concerns and suggestions. Idaho Power offers the following comments in response to the issues raised by Staff.

1. Selection of Demand-Side Management Programs

Idaho Power acknowledges that among the six energy efficiency programs analyzed in the 2004 IRP, all of which resulted in a positive benefit/cost ratio, only four of the programs were selected for implementation. The programs selected were those with the most favorable benefit/cost ratio. Idaho Power believes that its decision to select only the top four programs was a prudent decision for several reasons.

First, during the development of the 2004 Integrated Resource Plan, the Integrated Resource Plan Advisory Council (IRPAC) requested that in addition to the

energy efficiency and demand response programs considered in the 2004 IRP (programs principally focused on achieving summer peak-hour load reductions), Idaho Power conduct a study to identify other cost-effective energy efficiency and Demand-Side Management (DSM) opportunities. Since the IRP identifies a need for both peaking and base-load resources, Idaho Power agreed that other cost-effective energy efficiency and DSM opportunities should be considered in the plan. Idaho Power retained Quantum Consulting to perform this study, and agreed to file a copy of the Quantum Study as an addendum to its 2004 Integrated Resource Plan. This addendum was filed on December 15, 2004. Idaho Power shares Staff's desire to see the most cost-effective DSM programs implemented. With this in mind, Idaho Power believes that it is prudent to further analyze the results of the Quantum Study to identify and possibly incorporate additional cost-effective DSM programs into the 2006 or subsequent IRPs.

Second, Idaho Power is genuinely concerned about its ability to implement the four energy efficiency programs and the two demand response programs selected in the 2004 IRP, in the identified timeframe. Idaho Power believes that, since these load reductions are in effect being "counted before they hatch", it is reasonable for Idaho Power to gain more experience in large-scale DSM program implementation before furthering its reliance on DSM programs to meet its near-term needs. Since realization of benefits under these four programs is heavily dependent on customer participation, adequate resources must be directed to customer participation. Reduced customer participation will have a direct impact on the amount of load reduction that Idaho Power can actually realize.

Finally, the ability to fund DSM programs at levels indicated by the IRP is an ongoing concern. While Idaho Power believes that an increase in the DSM Tariff Rider is an appropriate mechanism for recovery of program costs, ongoing funding for these DSM program costs is unresolved at this time.

2. Comparisons to the Northwest Planning and Conservation Council's Estimates.

Idaho Power appreciates the Staff's recognition in its comments that the DSM estimates within the 2004 IRP cannot be directly compared to the Northwest Power and Conservation Council's (Council) estimates for the region, or even for some assumed portion "representing" Idaho Power's service territory. Staff acknowledges that any direct comparison between the Council's estimates and the IRP is an "apples and oranges" type of comparison. The Staff correctly notes that the Council's estimates include much more than just utility direct-acquisition programs. The Council's estimates for cost-effective DSM within the region are aggressive, and include all potential DSM, including DSM acquired through utility-direct acquisition programs as well as changes in building codes, changes in appliance standards, NEEA's market transformation programs, and naturally occurring conservation efficiency gains.

Attachment A is a chart showing a comparison of DSM potential within the Idaho Power service territory to a portion of the Council's estimates representing the same geographic area. The assumed portion of the Council's estimate is based upon the Company's contribution to Northwest Energy Efficiency Alliance (NEEA), which is based upon the Company's percentage of Pacific Northwest retail energy sales. The chart shows that the Company's DSM efforts identified in the 2004 IRP, combined with

NEEA's savings estimates through market transformation, provide Idaho Power DSM savings much closer to the Council's estimates than would have been apparent from a more simplistic comparison of the numbers.

3. Comparison of Resource Options

Staff's comments note that Idaho Power intends to issue a number of Requests For Proposals ("RFPs") for new renewable and other types of generation resources. Staff raises several questions about how responses to the Request for Proposals (RFPs) will be evaluated. "For example, how will Idaho Power decide whether bids are too expensive? What other alternatives will renewables be compared to? How will renewables be compared to Combined Heat and Power projects? How will different types of renewables with different generation characteristics, different locations or different on-line dates be compared? Clearly, these questions are valid and will eventually have to be answered, but the answers are not contained in the 2004 IRP." (Staff Comments, p. 10).

Idaho Power and the IRPAC share the Staff's concerns regarding resource evaluation. Idaho Power and the IRPAC examined many different types of supply-side resources and demand-side programs as part of the planning process. For example, on page 50 of the 2004 IRP, Figures 13 and 14 list respectively the 30-year nominal levelized fixed costs and the 30-year nominal levelized costs of production for various resources and programs. The figures show the expected costs as well as the relative ranking of different resources and programs with respect to costs.

Idaho Power and the IRPAC used the projected resource costs and risks associated with each resource to analyze many different resource portfolios and

presented a comparison of 11 resource portfolios in Table 12 on page 62 of the IRP. Chapter 5 of the 2004 IRP contains the referenced figures and tables as well as a narrative explaining the relative merits of the various resources and the characteristics of the various resource portfolios.

Idaho Power and the IRPAC performed the comparative resource analysis when developing the resource portfolios. The preferred resource portfolio developed in the 2004 IRP is the result of Idaho Power and the IRPAC comparing different types of resources, renewable and conventional, comparing different generation characteristics, and comparing resources with different on-line dates. The resource mix included in the preferred resource portfolio and the resulting near-term and ten-year action plans are based on the comparative resource analysis developed in Chapter 5 of the IRP.

As Idaho Power works through the near-term action plan outlined in Chapter 8 of the IRP, Idaho Power will compare the bids received through the various RFP processes as well as compare the bids with the resource costs described in Chapter 5 of the IRP. The calculated 30-year nominal levelized fixed and production costs presented in the IRP will be weighed against the proposed resource costs received through the RFP process to be sure they are reasonable and consistent with the resource costs presented in the IRP.

4. Pacific Northwest Transmission Upgrades

Staff's comments also noted that the 2004 IRP did not address transmission upgrades to the Pacific Northwest in the same detail they were addressed in the 2002 IRP. Idaho Power acknowledges that it would have been helpful if the estimated costs, and accompanying discussion, concerning transmission upgrades to

the Pacific Northwest interconnections would have been included in the 2004 IRP as they were in the 2002 IRP. However, the desired information is contained on Page 37 of the 2002 IRP report and is still applicable today. Transmission capability is an important part of Idaho Power's resource planning and, to the extent allowed by the FERC Standards of Conduct, a discussion of transmission capability will be included in the 2006 IRP.

To address this oversight, Idaho Power requests that the following discussion on transmission capability be included in the 2004 IRP by reference:

"The existing transmission system between Idaho Power and the Pacific Northwest has been largely optimized. No upgrades can be identified which will result in significant improvements in capacity for relatively small investments. Any significant increases in transmission capacity will require the construction of a new transmission interconnection that could be between 170 to 400 miles in length. Analyses of a range of transmission alternatives for additional Pacific Northwest transmission connections, including substation additions, show construction costs of approximately $400,000 to $700,000 per mile and incremental transmission costs between $45 and $90/kW per year.

The projected Pacific Northwest transmission upgrade costs are approximately 500 percent higher than Idaho Power's embedded transmission costs. Assuming a 50 percent annual load factor (typical for transmission interconnections) and further assuming that all available transmission capacity is subscribed, construction of new transmission lines results in 10 to 20 mills/kWh added to Pacific Northwest

purchased power prices. If some of the transmission capacity is unsubscribed, then the estimated transmission upgrade cost "adders" would be higher.

Building additional transmission capacity to the Pacific Northwest would provide improved access to any available capacity and energy from the Pacific Northwest. However, the total cost of employing a strategy to build a new interconnection to the Pacific Northwest to alleviate resource deficiencies, is the cost of the transmission upgrades, plus the capacity and energy charges for the purchased power. While surplus power prices in the Pacific Northwest can be low at times, firm power purchase prices during the summer when Idaho Power's capacity and energy shortfalls primarily occur, usually reflect the cost of natural gas fired generation.

New generating resource additions in the Pacific Northwest are expected to utilize coal, natural gas, or possibly wind, since no new large hydro-power projects are anticipated. If new natural gas-fired projects are to be built to serve loads in southwest Idaho, there are two obvious options; build or acquire additional natural gas pipeline capacity from the Pacific Northwest to southwest Idaho and locate the generator near the load in southwest Idaho, or locate the generator near the existing natural gas pipelines in the Pacific Northwest, acquire pipeline capacity and then build additional electric transmission line capacity to southwest Idaho. Studies indicate that over the lifetime of the projects, it is less expensive to build the natural gas pipeline capacity and locate the generator at the load.

In the case of coal-fired generation, the costs are nearly equal whether the generator is located at the mine-mouth with additional electric transmission construction, or the generator is located near the load and coal transportation costs are

incurred. Since there are no significant coal resources located in the Pacific Northwest, siting a coal plant to serve southwestern Idaho loads, would incur both coal transportation costs and electric transmission upgrade costs. Siting a coal-fired resource in other regions can result in the project being subjected to one economic penalty or both. Wind projects are site specific and it is unlikely that a wind resource located in the Pacific Northwest could overcome the economic burden of the significant transmission upgrade costs, when compared to wind projects located in areas that are closer to the load which do not require extensive transmission improvements.

Transmission upgrades across the Borah West path located west of American Falls, Idaho, are estimated to cost about $15/kW per year. It is Idaho Power's intention to consider transmission upgrade costs when comparing all potential resource additions, regardless of their geographic location."

5. Leadore Area Wind Project

In addition to the above-noted areas of concern identified by Staff, Idaho Power also believes it is appropriate to comment on the Leadore area wind project, proposed by Capital Enterprises Inc.

Mr. Warren Chapman, of Capital Enterprises, Inc., has offered to sell Idaho Power development rights for a potential wind project near Leadore, Idaho, which his company is in the initial stages of developing. Mr. Chapman would like for Idaho Power, or its associates to construct, own and operate the Leadore area wind project. To this end, Mr. Chapman has offered to sell 100% of his interest in Capital Enterprises, Inc. to Idaho Power for $350,000.

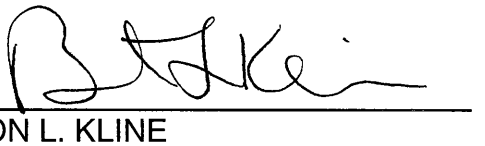
The 2004 IRP includes the addition of 350 MW of wind-powered generation to Idaho Power's resource portfolio. Idaho Power plans to acquire the wind-powered generation through a competitive solicitation process. A number of wind developers have expressed an interest in Idaho Power's forthcoming wind RFP, and Idaho Power hopes for a robust process with multiple competitive proposals.

Idaho Power has an open mind regarding the merits of the Leadore area wind project and welcomes Capital Enterprise's participation in the RFP process. However, given the current level of interest in the forthcoming RFP and Idaho Power's responsibility to demonstrate the prudence of its decisions to the IPUC, Idaho Power has no intention to develop a wind project outside of the upcoming competitive solicitation process.

CONCLUSION

Idaho Power views the IRP as a valuable planning activity – one in which, at least as far as energy resources go, Idaho Power implements projects that have positive long-run implications for our society. Idaho Power views the integrated resource planning process as work-in-process, always striving to improve the process and the associated analysis. It is incumbent upon Idaho Power, as well as the next IRPAC, to consider and address many of the issues that Staff and others have identified in their comments in its future IRPs, beginning with the 2006 IRP.

DATED this 23rd day of December, 2004.



BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 24th day of December, 2004, I served a true and correct copy of the above and foregoing RESPONSE OF IDAHO POWER COMPANY TO FILED COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Donald L. Howell, II Deputy Attorney General Idaho Public Utilities Commission 472 W. Washington Street P.O. Box 83720 Boise, ID 83720-0074	x ____ ____ ____	Hand Delivered U.S. Mail Overnight Mail FAX
William M. Eddie Advocates for the West P.O. Box 1612 Boise, ID 83701	____ x ____ ____	Hand Delivered U.S. Mail Overnight Mail FAX
Leesa Nayudu Origination Regional Director-West Sempra Energy Resources HQ14D 101 Ash St. San Diego, CA 92101-3017	____ x ____ ____	Hand Delivered U.S. Mail Overnight Mail FAX
Warren P. Chapman Capital Enterprises, Inc. 2356 Beryl Avenue Twin Falls, ID 83301	____ x ____ ____	Hand Delivered U.S. Mail Overnight Mail FAX

BARTON L. KLINE